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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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24 September 1974

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MEMORANDUM FOR: [redacted]
NIO/Western Europe

SUBJECT : Current Economic Situation in Portugal

Attached is the section you requested on the current economic situation in Portugal. If you need any further information, please contact [redacted]

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Attachment: As Stated

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PORTUGAL: NEW FREEDOM, NEW ECONOMIC PROBLEMS

Since General Antonio de Spinola came to power through a bloodless coup five months ago, the Portuguese economy has been shaken by labor militance, popular unrest, and uncertainty about the future. As a result, industrial production, retail sales, and private investment have apparently declined. Receipts from tourism and workers remittances are down, threatening the first foreign payments deficit in several years.

Pre-Coup Economic Situation

In the months preceding the coup, Portugal's access to Angolan oil largely insulated the country from the oil supply crisis. Real growth was continuing at a pace near to the long-term average, 6%. Lisbon felt little immediate concern over the balance of payments, even though higher oil prices and lower tourist earnings presaged a decline in the current account surplus.

Inflation was the most pressing problem, with prices up by 25% in the 12 months before the coup and the rate of increase accelerating. Inflation had trimmed -- perhaps even reversed -- the steady gains in real wages that workers had become accustomed to. There was also concern about employment. For many years two out of every three ortuguese had found industrial jobs only by going to another European country. Thus, the economic slowdown in Western Europe threatened to reduce employment opportunities for Portuguese workers.

Post-Coup Developments

Since the coup, labor disputes and uncertainty over government policy have led to serious economic problems. Production has been disrupted in many sectors' by wildcat strikes, as workers used their unaccustomed freedom to make often unreasonable demands. Many firms are deferring investment and refusing to hire additional workers. Layoffs are threatened in some labor-intensive industries and a few firms whose profits were squeezed by large wage increases, have gone out of business altogether. Housing construction is particularly slack, in part because of a lack of funds. Retail sales of non-essentials appear to be off sharply, reflecting apprehension among consumers.

The government thus far has taken only stopgap measures. Immediately after the coup, emergency steps were taken to stanch capital outflows. The minimum wage was increased to $130 monthly, which raised pay for about half of the work

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force and substantially boosted labor costs. Since then wages, as well as prices, have been controlled, but higher pensions and family allowances have been promised. Inexperienced government arbitrators are trying to resolve labor disputes with mixed success. The regime has used threats to get some essential workers back to their jobs.

Outlook

In the heady post-coup atmosphere, the junta promised almost everything: reduced inflation, higher wages, increased investment, tighter environmental controls, liberalized trade and capital flows, tax reform, economic decentralization, improved social security, and more. It will have to choose among conflicting goals and, even then, will find it difficult to deliver. The likely failure of the government to fulfill many of its economic pledges could add to political unrest.

Lisbon has finally begun to formulate an economic plan, which gives top priority to maintaining employment. With economic activity slowing throughout Europe, unemployment will be a serious problem even if there is no large-scale return of white settlers from Africa. Several measures

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are thus planned to stimulate investment, particularly in labor-intensive projects. Direct controls on prices and wages will continue to be the main weapon against inflation.

The economic outlook hinges principally on the government's ability to restore order in the labor field and confidence among businessmen and consumers. The government's price controls are likely to fall apart before long under the pressure of increased labor costs, and a wage-price explosion is a distinct possibility. Output probably will remain depressed despite Lisbon's new measures, until the political situation stabilizes. Although the balance of payments will deteriorate sharply from last year's surplus, Portugal's still large foreign exchange reserves will help to cushion the impact.

The government has hurried to settle the African conflicts believing that popularity of a settlement would buy time to meet other problems and free substantial resources for the effort. At the same time, Lisbon is continuing to press the United States and major European countries for assistance in helping to meet its economic promises and to bolster confidence in the new regime. To these ends, the recent signing of a $150 million Eurocurrency credit is an important accomplishment.

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